

VZCZCXRO3972
PP RUEHIK
DE RUEHBUL #3732/01 3241139
ZNR UUUUU ZZH
P 201139Z NOV 09
FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC PRIORITY 3319
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC 0943
RUCNAFG/AFGHANISTAN COLLECTIVE
RUEHZG/NATO EU COLLECTIVE
RUEABND/DEA HQS WASHINGTON DC
RUEHRC/USDA FAS WASHDC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 03 KABUL 003732

SENSITIVE
SIPDIS

E.O.12958: N/A
TAGS: [EINV](#) [EFIN](#) [ECON](#) [AF](#)
SUBJECT: USAID MISSION DIRECTOR FREJ MEETS WITH FINANCE MINISTER
ZAKHILWAL

KABUL 00003732 001.2 OF 003

11. (U) This is an action message. See paragraph 10.

12. (U) SUMMARY: On November 12, 2009, USAID Director Frej met Finance Minister Zakhilwal to discuss issues ranging from anti-corruption efforts to long-term economic growth issues. Minister Zakhilwal stressed that "the focus on corruption is important to us, affecting the confidence of our people and our relationship with the international community. We need to get past the general statement of (combating) corruption into the details." He welcomed the pressure and the conditioning of U.S. assistance on what the government must deliver in terms of reform, while asking us to acknowledge progress made to date. Zakhilwal also reiterated the importance of three ongoing initiatives in government reorganization: 1) the clustering of Ministries around the themes of Agriculture and Rural Development, Infrastructure, Human Capacity, and Governance; 2) strengthening the financial management, service delivery, and oversight of the top six ministries managing 80 percent of the country's development assistance; and 3) pushing the reform agenda within these institutions to streamline procedures and enhance transparency, revenue generation and law enforcement efforts. See action request in paragraph 10. END SUMMARY.

INTRODUCTION

13. (U) Pursuant to his request to revive monthly meetings, Minister Zakhilwal met with USAID Director Bill Frej to review five specific agenda items: 1) the Sheberghan gas fields; 2) Salary and Salary supplements for government officials; 3) the Civilian Technical Assistance Plan (CTAP); 4) Economic Growth issues (Mining, Non-Tax Revenues, and Tax Reform); and 5) regional airports.

ON SHEBERGHAN

14. (U) The Sheberghan gas field project aims to attract private investors to develop the fields and construct and operate a gas-fired electricity generation plant, supplying 100 MW to 150 MW of power to Kabul and eastern Afghanistan, including Nangarhar Province. Following serious expressions of interest from the private sector for this project, USAID plans to provide capacity-building assistance to key Afghan Ministries such as the Ministry of Mines (MoM), Ministry of Energy and Water (MEW), and DABS concerning the principles of private sector arrangements for gas production as well as power purchase agreements for gas fired Independent Power Producers. USAID indicated that it had received two proposals to complete this project and has now completed the selection process. USAID's Office of Acquisition and Assistance (OAA) is in contact with the prospective implementer at this time

and estimates that the \$6 million contract should be completed by November 30, 2009.

MINING SECTOR

¶5. (SBU) Finance Minister Zakhilwal said Afghanistan's mining sector can be a major engine of growth, generating significant investment, employment, and public-revenue. He indicated that the current Minister of Mines would be replaced, following the President's inauguration. As part of Afghanistan's eligibility in the World Bank's Heavily Indebted Poor Countries Initiative (HIPC) and in line with ANDS objectives, mining remains a key priority for the Government of the Islamic Republic of Afghanistan (GIROA)Q

¶6. (U) Mission Director Frej noted that USAID's Economic Governance and Growth Initiative (EGGI) project is committed to providing advisory support to GIROA to improve legislation, regulations, and fee structures to encourage exploration and investment in mining projects. EGGI programs could include additional support to the Ministry of Mines for policy analysis, training, and mentoring.

GIROA SALARY SUPPORT

¶7. (U) USAID has been funding salaries and salary supplements in the Office of the President and Ministry of Education. USAID Mission Director Frej and Minister Zakhilwal agreed to work together on a way forward to address the issue of funding salaries and salary supplements for GIROA officials. As a first step, Mission Director Frej agreed to share the lists of current USAID-funded staff with the Ministry of Finance to avoid duplicative payments from other

KABUL 00003732 002.2 OF 003

sources.

CIVILIAN TECHNICAL ASSISTANCE PLAN (CTAP)

¶8. (U) The Civilian Technical Assistance Plan (CTAP) is moving forward. Specifically, the USG intends to support this multi-donor pilot program via direct transfer to the Ministry of Finance (\$30 million over two years). Besides the commitments that the U.S., the UK, Canada, and Japan have made to support CTAP, other donors such as Italy have expressed interest in participating.

¶9. (U) Mission Director Frej noted that no other donors but the US have begun negotiations with the GIROA nor have they placed any advisors in the secretariat. USAID's financial assessment of the Ministry of Finance, which has been shared via UNAMA, paves the way for many smaller donors to consider direct budget support. Both parties agreed that UNAMA also needs to take a more active role in getting additional donors on board. Finance Minister Zakhilwal indicated that he will continue to put pressure on donors to fulfill their commitments, and suggested a potential Joint Coordinating Monitoring Board meeting in mid-December as the right public forum to do so.

¶10. (U) Action Request: We recommend Washington, through the Secretary's Office of the Special Representative for Afghanistan and Pakistan, consider undertaking a broader diplomatic effort to demarche the UK, Canada, and Japan to meet their CTAP pledges and solicit greater support from other donors. This initiative is consistent with President Obama's emphasis on greater Afghanization of assistance, enabling the Afghan government to take the lead in their own development. End Action Request.

NON-TAX REVENUES / TAX REFORM

¶11. (U) Mission Director Frej noted that USAID's EGGI project produced an initial assessment for mobilizing non-tax revenue. Based on data from 1387 (FY 2008-09), total non-tax revenue

collected was 13.5B Afs (or \$270M), or 29% of all collected revenue.

There are over 107 different types of non-tax categories, but the top 20 account for 90% of non-tax revenue (conveying the rates on the rest are so low they are almost negligible and could be eliminated or that collections are a lot lower than they should be).

There are 47 Government Agencies that collect and deposit non-tax revenues, but six of them account for 96% of collections. These "big six" are the Ministries of Mines, Finance, Transportation, Foreign Affairs, Communications, and Interior. U.S. Treasury will focus its efforts on the Ministry of Transportation, while USAID will address the other five ministries and the issue non-tax revenue more broadly in cooperation with the Ministry of Finance. As a next step, and with technical support from EGGI, Frej requested that the Ministry of Finance identify staff to support this initiative with other ministries.

¶12. (U) In agreement with UK-DFID, USAID will explore support to the MOF to establish a Fiscal Policy Unit that will include a mandate for Tax Policy formulation, while DFID continues its focus on Tax Administration and expansion of large and medium tax payer offices to the regions, under the Deputy Minister (DM) for Revenue. Finance Minister Zakhilwal concurred that adjustments in the organizational structure of Mustufiats (MOF provincial offices) that report to the Deputy Minister for Administration should be adjusted to report to the Deputy Minister for Revenue. The Deputy Minister for Revenue is responsible for approximately two-thirds of all MOF staff who collect customs, tax, and non-tax revenue, and the Revenue Department should play a more prominent role in hiring, firing, promoting, and disciplining its staff.

REGIONAL AIRPORTS

¶13. (U) The Afghan government requires \$12 million to upgrade airstrips in Faryab, Badakhshan, and Chagcharan. USAID pledged to match \$6 million with a GIROA or other donor contribution of an equal amount. Finance Minister Zakhilwal noted that the match is ready. The next step is that USAID will draft a Memorandum of Understanding between the Ministry of Finance, Ministry of Transport and Civil Aviation, Asian Development Bank, World Bank, and USAID.

KABUL 00003732 003.2 OF 003

COMMENT

¶14. (U) Minister Zakhilwal projected the image of a Cabinet member who gets things done. He displayed a detailed knowledge of a wide range of issues and seemed confident that his pragmatic, results-oriented approaches would continue in the new government. We believe he has the will to carry through on financial reform -- provided he remains as Finance Minister.
RICCIARDONE